Third Lesson:

Objective:
The students will understand the economic concepts of demand, supply, and equilibrium and why they are important.

Materials:
1. Graph paper for students
2. Graph paper for transparency
3. Vocabulary sheets
4. Fake money
5. Candy Bars

Vocabulary:
1. Law of Demand: states that as the price of a good or service increases, demand decreases and vice versa
2. Law of Supply: states that as the price of a good or service increases, supply increases and vice versa
3. Equilibrium: Where buyers and sellers agree on a price. On a graph, this is where the demand and supply curves intersect.

Review:
Split the class into three groups. These groups will also be used for the activity. Each group will choose one vocabulary word from our last lesson. Each group will pretend as though they are teachers, and they have to come up with an activity for their class to do. This activity will explain to the students what this term means. The teams cannot use activities that we have already used in class.

Activity:
Use the same three groups as before. Within each group assign half of the students to be buyers and half to be sellers. Sellers will receive a product to be exchanged on the market (a piece of candy) and buyers will receive play-money to be exchanged for the desired product. The sellers will be told that the money they make can be used later so they want to try to make a good sell (This will give them an incentive for selling the candy for only play money). Teams will have a few minutes to negotiate with one another and determine sale prices.

Law of Demand:
Hold up a candy bar and ask the students to raise their hand if they would buy the candy bar if it cost only $0.50. Make a t-chart on the board with prices on one side and the numbers of buyers on the other side. Record how many students would buy the candy bar at $0.50 then raise
the price to $1, $2, $4, $8 and record each number on the t-chart. Ask for a student volunteer to read the law of demand while everyone else follows along.

Pass out graph paper to each student. Have the students make a graph on their graph paper as you make one on the overhead transparency. Make a graph plotting the points from the t-chart made earlier.

**Law of Supply:**

Get the kids to think back to the activity. It’s going to be harder for them to think about the supply because they are used to being buyers, not sellers. Ask them: If you were one of the sellers in the activity, did you want to sell your candy for a high or low price? Why? Have a student volunteer read aloud the definition of the law of supply while everyone else follows along. Remind the students that economics should make sense. If sellers want to make more money, they would want to sell more goods at a higher price. The law of demand and the law of supply have an inverse relationship. This means that when price changes, one goes up while the other goes down. Now let’s plot some points to make a supply curve on a graph. Use the table below for the supply curve.

<table>
<thead>
<tr>
<th>Price:</th>
<th>$.50</th>
<th>$1.00</th>
<th>$2.00</th>
<th>$4.00</th>
<th>$8.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity Supplied:</td>
<td>1</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td>25</td>
</tr>
</tbody>
</table>

**Equilibrium:**

Now, remember back to our activity one more time. How did the buyer and the seller come to an agreement? You had to agree on the same price. If the buyer wanted to buy for $1 and the seller wanted to sell the candy bar for $5, nothing would happen. But, if they could come to an agreement, a sale would be made. In economics, we call this the equilibrium. Have a student read the definition for equilibrium while everyone else follows along. You can remember this because equilibrium sounds similar to equal and the equilibrium is where the buyer and seller agree on the same price. This is also where the supply curve and demand curve intersect on the graph. Have the students look on the graph to find where this point is.

**Wrap-up:**

Have a discussion with the students about why it is important for them to learn about supply and demand. Why should they care about these terms? Ask them to give examples of when they have seen these terms in their lives. As a homework assignment, have the kids ask their parents if they know the law of supply and the law of demand. If they don’t, tell the kids to explain it to them as best they know it.

**Test questions:**

1. Give an example of how you use demand or supply in your daily life.
2. Pretend you are starting your own business and you want to sell candy bars after school at sports games. Would you want to sell your candy bars for a higher or lower price and why?
3. What is equilibrium and why is it important?
Third Lesson Graph:
Third Lesson Vocabulary Sheet

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